

**TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE**  
**March 22, 2013**

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Testimony Supporting House Bill No. 6352

AN ACT CONCERNING THE EXPENDITURE CAP

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Senator Harp, Representative Walker and distinguished members of the Appropriations Committee, thank you for the opportunity to offer testimony on House Bill No. 6352, An Act Concerning the Expenditure Cap.

Having been ratified by a four to one margin by the electorate in 1992, the expenditure cap has served the citizens of the state of Connecticut for a total of twenty-one budgets. By tying the growth in the state's budget to either personal income growth or the rate of inflation, it ensures that state government lives within the means of the economy's ability to pay for state services.

It's worth noting that over those twenty-one years, the allowable growth rate of appropriations subject to the cap has averaged 4.6%. For FY 2014, however, that rate will be only 1.79%, the lowest on record and well less than half the average growth rate since the cap came into existence. Within this record-low rate of growth, the state must accommodate all of the demands for critical state services, including health care, transportation and education, while at the same time addressing its long-term liabilities, such as those relating to pension obligations. Additionally, appropriations for the expansion of health care under the Affordable Care Act beginning this year are also subject to the cap, despite the fact that the expansion will be fully funded by the federal government.

<b>History of Expenditure Cap Growth Rates</b> <b>FY 1993- FY 2015</b>	
Average	4.60%
Highest Year	6.38% (FY 1993)
Lowest Year	1.79% (FY 2014)

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While the cap has served the state well over the past twenty-one years, it has engendered vigorous debate since its inception. Some have argued that the cap discourages maximization of federal reimbursement; others believe that exemptions from the cap's strictures should be better defined. Regardless, these definitions should not discourage the state from responsibly addressing its long-term liabilities.

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The Governor is fully committed to living within the cap, but we believe the time is right to offer some common-sense modifications to the statutory definitions.

As a result, the Governor is proposing two definitional changes to the state's expenditure cap:

- First, this bill proposes that appropriations related to the unfunded past service liability of our pension obligations be treated similarly to the way debt service appropriations are handled within the expenditure cap. The treatment of unfunded pension obligations as similar to bonded debt is consistent with new reporting requirements adopted by the Governmental Accounting Standards Board, which sets the accounting standards for government, and is also consistent with the way in which the state's credit rating agencies assess the overall liabilities of the state. The proposed change will allow the state to make its contractually required payments to both the State Employees Retirement Fund and the Teachers' Retirement Fund without consuming all allowable cap growth. As of June 30, 2012, the total value of our unfunded pension liabilities is \$24.4 billion, which will be amortized over the next two decades.
- Second, this bill proposes that for any federal program in which the state participates and receives one hundred percent funding, that the initial growth in those expenditures be exempt from the cap in their first year, similar to the way federal court orders and mandates are treated. As federal taxpayers, the citizens of Connecticut are one of the largest net contributors to the finances of the United States government, so it would not make sense for our state to forgo the services that the federal government will fully support with our tax dollars.

With these definitional changes, approximately \$400 million in each year of the biennium would be defined as exempt from the cap, with the result that the Governor's budget proposal would be \$1.4 million under the cap in FY 2014 and \$91.0 million under the cap in FY 2015.

<b>Expenditure Cap</b>		
Amount Above/(Under) the Cap (in millions)		
	<b>FY 2014</b>	<b>FY 2015</b>
Current Services	\$1,273.3	\$1,780.4
Recommended	\$ (1.4)	\$ (91.0)

It is our understanding that these statutory changes will require approval by 3/5<sup>ths</sup> of each chamber of the General Assembly.

I would like to again thank the committee for the opportunity to present this testimony. I respectfully request the Committee support this bill and I will be happy to answer any questions you may have.